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CENTRAL-DEL RIO OILS LIMITED

ANNUAL REPORT 1963

CENTRAL-DEL RIO OILS LIMITED

Seventeenth Annual Report

For the period ended December 31, 1963

Annual Meeting

The Annual Meeting of Shareholders of the Company will be held at the Palliser Hotel, Calgary, Alberta, at 10 a.m. on Thursday, April 16, 1964. Notice of meeting and proxy forms have been mailed to all registered shareholders.

CENTRAL-DEL RIO OILS LIMITED

Financial and Operating Summary

	For the Years ended December 31		
	1963	1962	1961
FINANCIAL			
INCOME	\$7,662,690	\$6,271,513	\$5,296,290
NET PROFIT before depreciation, amortization, costs of dry holes, abandoned leases and income taxes	\$5,083,211	\$4,209,913	\$3,852,834
NET PROFIT before income taxes	\$2,691,988	\$2,168,224	\$1,960,321
INCOME TAXES	\$ 536,951	\$ 864,045	\$ 280,146
NET PROFIT for the year	\$2,155,037	\$1,304,179	\$1,680,175
CASH DIVIDEND paid	\$ 648,504	\$ 644,672	\$ 643,092
WORKING CAPITAL — as of December 31	\$4,877,119	\$6,353,303	\$5,911,864
— (Decrease) Increase during the year	(\$1,476,184)	\$ 441,439	\$1,638,995
OPERATING			
— Oil sold for company account(bbls.)	3,107,815	2,730,476	2,587,242
— Average daily sales(bbls.)	8,515	7,481	7,088

DIRECTORS' REPORT TO THE SHAREHOLDERS

The Consolidated Financial Statements and your Auditors' Report for the twelve-month period ended December 31, 1963, are presented herewith for your approval. Comparative figures for the previous year are included in these financial statements. The results of the year's operations are the best in the Company's history.

The Financial and Operating Summary on the facing page gives comparative figures for the three years 1961, 1962 and 1963. Your Company's progress is well illustrated in this summary. It will be noted that Income, Net Profit and Oil sold for company account for 1963 all show very satisfactory increases. Working Capital at 1963 year-end was \$4,877,119 as compared with \$6,353,303 at 1962 year-end—a decrease in Working Capital during the year of \$1,476,184. Your Company's share of the capital costs of permanent plant and equipment for the Weyburn Unit waterflood and consolidation of producing facilities was in excess of \$1,800,000 during the year under review. It will be apparent to the shareholders that if this large non-recurring capital expenditure for Unit plant and equipment had not occurred during the year, Working Capital as of December 31, 1963, would have shown an increase over the previous year in place of a decrease.

As of July 1, 1963, Central-Del Rio Oils Limited took over as operator of the Weyburn Unit, consisting at that time of 550 wells in the Weyburn Oilfield. Your Company's participating interest of 22.45445% is the largest participating interest in the Weyburn Unit. Installation of plant, equipment and facilities for the unitized Weyburn Oilfield is on schedule, and full scale water injection is expected to be actually under way by May, 1964. This operation is considered to be the largest single waterflood on the continent, and will have the effect of greatly increasing the recoverable reserves of the Weyburn Oilfield.

Your Company drilled or participated in the drilling of a total of 45 wells during the year which resulted in 2 discovery gas wells — 2 discovery oil wells — 17 development oil wells — 17 wells dry and abandoned — 5 wells drilling and 2 wells completing at the year-end.

Your Land Department increased the gross acreage holdings of the Company during the year by 150%, which had the result of increasing total net acreage holdings by 85%. Acreage held by mineral titles remains unchanged.

Gross acreage holdings at year-end were	3,039,755 acres
Net acreage holdings at year-end were	1,224,349 acres
Gross mineral holdings at year-end were	793,949 mineral acres
Net mineral holdings at year-end were	92,560 mineral acres

The 50% stock interest held by your Company in Minerals Ltd., a private Saskatchewan corporation, is carried on the balance sheet of Central-Del Rio at cost. This asset is yearly becoming increasingly valuable and in actual value is worth considerably more than cost. At the year-end Minerals Ltd. was receiving

2½ % royalty on 219 oil wells, and in addition owned a 20% working interest in 27 oil wells. All of the above wells are on its mineral holdings in Saskatchewan. This affiliated company has no debts and at year-end had a working capital in excess of \$150,000.

Additional oil reserves found by Central-Del Rio during the year were more than sufficient to replace the oil produced. Expenditures for the year on lands, leases and well costs amounted to \$3,432,922. The major portion of this expenditure was for exploratory wells and land acquisitions in Alberta, British Columbia, Saskatchewan, Ontario, North Dakota, Montana and Louisiana.

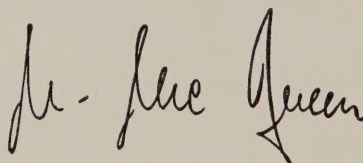
We were very fortunate in securing the services of Mr. Russell W. Burns during the year as Vice-President — Exploration. Mr. Burns has had many years of experience directing major exploration programmes principally in the general areas where our exploration expenditures have been made, and will be responsible for the direction of our present and future exploration programme, which will be still further stepped up in 1964.

Your Company's organization has been considerably increased during 1963, including the employment of highly qualified engineering, geological, legal and accounting personnel, to the degree that your Directors are entirely satisfied that your predominantly Canadian-owned, independent company is fully qualified and able to efficiently handle its responsibilities as operator of the Weyburn Unit, and to effectively meet the very heavy competition that exists, principally from foreign controlled major oil companies, in the acquisition of land and in the finding and development of new oil reserves.

The size and value of your Company's land holdings and production revenue have consistently increased from year to year, and your Directors are confident that 1964 will be another year during which substantial improvement will be experienced in the affairs of Central-Del Rio Oils Limited.

Again, we must give a large share of the credit for this Company's continuous progress to the keen interest and co-operation of all company personnel.

On behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to read "J. Lee Green". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

Calgary, Alberta,
March 2, 1964.

President.

CENTRAL-DEL RIO OILS LIMITED

Consolidated Statement of Profit and Loss

	For the Years ended December 31	
	1963	1962
Income:		
Crude oil sales less royalties paid	\$6,829,625	\$5,796,433
Other — fees, investment and miscellaneous	833,065	475,080
	<u>7,662,690</u>	<u>6,271,513</u>
Expenses:		
Production and field	1,301,749	882,599
Administrative and general	680,558	622,259
Lease rentals	406,765	328,169
Geological and geophysical	190,407	228,573
	<u>2,579,479</u>	<u>2,061,600</u>
Net profit before provision for the following:	<u>5,083,211</u>	<u>4,209,913</u>
Depreciation of plant and equipment	302,470	339,662
Amortization of lands, leases and well costs	1,247,517	1,095,128
Costs of dry holes and abandoned lands and leases	841,236	606,899
	<u>2,391,223</u>	<u>2,041,689</u>
Net profit before providing for taxes on income	<u>2,691,988</u>	<u>2,168,224</u>
Provision for taxes on income	536,951	864,045
Net profit for year	<u><u>\$2,155,037</u></u>	<u><u>\$1,304,179</u></u>

Consolidated Statement of Surplus

Balance at beginning of year	\$2,322,182	\$1,662,675
Add net profit for year	2,155,037	1,304,179
	<u>4,477,219</u>	<u>2,966,854</u>
Less cash dividend of 10¢ per share	648,504	644,672
Balance at end of year	<u><u>\$3,828,715</u></u>	<u><u>\$2,322,182</u></u>

The accompanying notes to consolidated financial statements
form an integral part of these statements.

CENTRAL-DEL

CONSOLIDATED

ASSETS

	As at December 31, 1963	As at December 31, 1962
Current Assets:		
Cash	\$ 354,542	\$ 182,951
Accounts receivable	1,918,929	882,205
Short term investments	4,364,932	5,040,192
Marketable securities, at cost (quoted market value 1963 — \$1,314,750; 1962 — \$1,492,045)	1,283,940	1,501,753
Inventory of materials and supplies, at cost	40,351	59,325
Prepaid expenses	2,715	40,368
Total Current Assets	<u>7,965,409</u>	<u>7,706,794</u>
Loans, Agreement Receivable and Deposits	<u>86,307</u>	<u>114,082</u>
Fixed Assets, at cost:		
Plant and equipment	6,126,570	4,086,363
Lands, leases and well costs	28,629,050	26,396,563
	<u>34,755,620</u>	<u>30,482,926</u>
Less accumulated depreciation and amortization	9,761,829	8,612,997
	<u>24,993,791</u>	<u>21,869,929</u>
Investment in Affiliated Company, at cost:		
Minerals Ltd.	688,306	688,306
Other Investments, at cost	135,739	135,389
	<u>\$33,869,552</u>	<u>\$30,514,500</u>

The accompanying notes to consolidated financial statements are an integral part of these consolidated financial statements.

The Auditors' Report is attached hereto.

OILS LIMITED

ALANCE SHEET

LIABILITIES

Current Liabilities:

	As at December 31, 1963	As at December 31, 1962
Accounts payable	\$ 2,850,437	\$ 502,329
Accrued wages and holiday pay	15,882	6,664
Royalties payable	114,356	120,526
Income taxes payable	107,615	723,972
Total Current Liabilities	<u>3,088,290</u>	<u>1,353,491</u>

SHAREHOLDERS' INVESTMENT

Capital Stock:

Authorized:

10,000,000 shares without nominal or par value

Issued and fully paid: (Note 2)

6,487,084 shares (December 31, 1962,

6,465,415 shares) 26,952,547 26,838,827

Surplus, as per Consolidated Statement of Surplus 3,828,715 2,322,182

Approved on behalf of the Board:

M. Lee Green

Director

J. Hardy

Director

\$33,869,552

\$30,514,500

ements form an integral part of this statement.

d to this Balance Sheet.

CENTRAL-DEL RIO OILS LIMITED

Notes To Consolidated Financial Statements

AS AT DECEMBER 31, 1963

NOTE 1 - Share Options Outstanding

The following share options are outstanding as at December 31, 1963:

- 19,381 shares at \$5.00 to employees before May 1, 1964
- 17,500 shares at \$5.50 to employees before January 1, 1967
- 3,000 shares at \$7.50 to employees before May 1, 1967
- 6,480 shares at \$7.50 to employees before April 1, 1968
- 4,294 shares at \$7.50 to employees before July 1, 1968
- 6,822 shares at \$7.75 to employees before May 1, 1967
- 10,000 shares at \$7.25 to an employee before December 1, 1969
- 115,000 shares at \$8.25 to employees before February 20, 1967

NOTE 2 - Capital Stock Issued

During the year 21,669 shares of the capital stock of the Company were issued under share option plans for a cash consideration of \$113,720.

NOTE 3 - Income Taxes

For purposes of determining income taxes, the companies claim the maximum allowable deductions for development, well costs, depletion and depreciation, which deductions are in excess of those charged in the accounts.

NOTE 4 - Executive Remuneration and Legal Fees

The total amount deducted in the consolidated statement of profit and loss in respect of salaries and other remuneration paid to counsel, solicitors and executive officers including all salaried directors was \$188,928 for the year ended December 31, 1963 (\$165,160 for 1962).

Auditors' Report To The Shareholders

We have examined the consolidated balance sheet of Central-Del Rio Oils Limited as at December 31, 1963 and the consolidated statements of profit and loss and surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of profit and loss and surplus, are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company and its wholly-owned subsidiaries as at December 31, 1963 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 25, 1964

HENDERSON, WAINES AND ANDERSON
Chartered Accountants

CENTRAL-DEL RIO OILS LIMITED

Consolidated Statement of Source and Application of Funds

FOR THE YEAR ENDED DECEMBER 31, 1963

Source of Funds:

Net profit for the year ended December 31, 1963 before deduction for depreciation, amortization, costs of dry holes and aban- doned lands and income taxes	\$5,083,211	
Less provision for taxes on income	536,951	\$4,546,260
Proceeds from sale of capital stock		113,720
Reduction in loans, agreement receivable and deposits		27,775
Decrease in working capital		1,476,184
		<u>\$6,163,939</u>

Application of Funds:

Plant and equipment	\$2,082,163	
Lands, leases and well costs	3,432,922	\$5,515,085
Payment of dividend		648,504
Investments		350
		<u>\$6,163,939</u>

Synopsis of Accounting Practice

Costs of unproductive wells are charged against income as incurred.

Lease rentals are charged against income as incurred.

Costs of geological and geophysical work are charged against income as incurred.

Acquisition costs of all lands and leases are initially capitalized.

Acquisition costs of productive lands and leases together with costs of productive wells thereon are amortized annually on a unit of production basis. This amortization is determined by applying to such costs the percentage that oil produced during the year bears to the estimated reserves.

Costs of undeveloped properties are carried in the accounts until such time as the properties become productive or are abandoned. The costs of abandoned properties are written off at the time of abandonment.

The costs of plant and equipment are depreciated on a reducing balance basis, and the rates are designed to write off the assets over periods not exceeding their estimated useful life.

CENTRAL-DEL RIO OILS LIMITED

Head Office: 224 - 9th Avenue S.W., Calgary, Alberta

DIRECTORS

G. H. ALLEN, Q.C.
R. C. CARLILE
JOHN F. HARDY
W. M. LAIDMAN
P. MACKENZIE
NEIL McQUEEN
D. L. REDMAN
J. C. ROSS
DONALD WINSTON

OFFICERS

NEIL McQUEEN, *President*
JOHN F. HARDY, *Executive Vice-President and General Manager*
D. L. REDMAN, *Vice-President — Operations*
R. W. BURNS, *Vice-President — Exploration*
A. H. JUKES, *Vice-President — Land*
C. M. MACINNES, *Secretary*
V. B. WATSON, *Treasurer*
A. BARRY BEAVEN, *Assistant Secretary*
A. V. SPROULE, *Administrative Assistant*

**REGISTRAR AND
TRANSFER AGENT**

PRUDENTIAL TRUST COMPANY, LIMITED
Calgary - Vancouver - Toronto - Montreal

BANKERS

THE ROYAL BANK OF CANADA

COUNSEL

ALLEN, MACKIMMIE, MATTHEWS, WOOD, PHILLIPS & SMITH
Barristers and Solicitors - Calgary, Alberta

AUDITORS

HENDERSON, WAINES AND ANDERSON
Chartered Accountants - Calgary, Alberta

